Withdrawing Your PERSI Funds:

Base Plan Separation Benefits
&
Choice Plan 401(k) Distributions

This publication is meant to summarize your PERSI benefits and applicable federal tax laws as simply and accurately as possible. If there is any discrepancy between this publication and the law, the provisions of the law will prevail. PERSI cannot provide tax advice, therefore **we strongly suggest that you consult with a professional tax advisor before you request a payment of benefits from PERSI.**

Depending on eligibility, most PERSI members have two PERSI accounts - a Base Plan 401(a) account and a Choice Plan 401(k) account. Once you terminate PERSI-covered employment you may withdraw your funds from either or both accounts. The two have different requirements and withdrawal options.

PERSI tries to make taking and/or repaying withdrawals as easy as possible, however both involve many complicated conditions and tax consequences. **We urge you to read this brochure thoroughly, and strongly recommend that you consult with a tax advisor before taking or repaying a withdrawal.** If you have questions after reading this material, please contact PERSI.

Taking A Base Plan Separation Benefit

A **separation benefit** is a lump sum payment of all the money you contributed to the PERSI Base Plan (401a plan), including the interest on your contributions. **Contributions made by your employer are NOT refundable.**

Separation Benefit Eligibility

You are eligible for a Base Plan separation benefit if you were an active member and have **terminated** PERSI-covered employment. You must be an **inactive** member to apply for a separation benefit.

You are **not** eligible if you are working for a PERSI employer, even part time, or are on a leave of absence.

If you take a separation benefit and return to work for the same employer within 90 days, you will be required to repay any separation benefit you received, plus any interest due.

State of Idaho employees who leave one state agency and begin work for another agency within 90 days must repay any separation benefit received plus interest.

Other Conditions for Eligibility

You are **not** eligible for a separation benefit if you continue to work for the same PERSI employer, even if you are working less than the 20 hours per week required for PERSI membership.

If your employer withdraws from PERSI, PERSI **cannot** pay separation benefits to you until you cease working for that employer, because according to IRS and Idaho code, a separation benefit payment can only be made when employment ends.

Your request for a separation benefit can only be made while you are an **inactive** member, meaning you are not working for a PERSI employer. If you leave one PERSI employer and begin working for another PERSI employer, there must be a break in employment between jobs to qualify for a separation benefit. A request for a separation benefit must be made **after** you stop working for one PERSI employer and **before** you start with a new PERSI employer.

Spousal Consent

March 2006—Spousal consent no longer required

~~Idaho is a community property state, and under Idaho law, your spouse may be entitled to a portion of your PERSI Base Plan benefit. To recognize this right, if you are married, PERSI will require your spouse's consent before a separation benefit is paid. Spousal consent protects your spouse's right to his or her portion of the benefit.~~

~~Your spouse's signature on the Separation Benefit Request RS-108 form must be notarized by a Notary Public to ensure that it is your spouse that is offering consent. He/she must show photo identification. All PERSI offices have notaries available at no cost. If you and your spouse wish, you may make an appointment with a PERSI notary.~~

Applying for a Base Plan Separation Benefit

To apply for a Base Plan separation benefit, you must be an inactive member, and must meet the eligibility conditions listed above. PERSI must receive two documents before we can pay a separation benefit: a Notice of Separation RS-109 from your employer, AND a Request for Separation Benefit RS-108 from you. If you choose to "rollover" your funds to an IRA or another eligible retirement plan, we will also need the name, address and plan account information as well as a signature from the plan administrator.

The separation benefit is usually made in two payments. The first will be sent to you approximately two to four weeks after PERSI receives both documents required. This first payment includes all employee contributions and interest in your retirement account at the time of payment. About 90 days later, a follow-up payment is sent which consists of the balance of contributions made to your account in the interim (if any). **If you have been out of PERSI for over two months, all money will probably be refunded to you in one check.**

Taking a Separation Benefit Cancels Your Base Plan Service Credits

When you take a separation benefit, you cancel all service credits toward your Base Plan retirement. If you have enough credited service to qualify for a Base Plan retirement pension, you also cancel your eligibility for that benefit. If you return to employment for a PERSI-covered employer, you will start over in accruing service. There are many types of employers throughout Idaho that belong to PERSI, such as school districts, the State of Idaho, state universities, counties, cities, police and fire departments, highway districts, sewer districts, libraries and more. If you think you may work for any of these employers in the future, or if you are vested to a lifetime retirement benefit, you may want to consider leaving your funds in PERSI.

If you have at least 60 months of credited service, or have a "vested right" to a lifetime retirement benefit, we recommend that you refer to your most recent PERSI Benefits Statement (see the Accrued Benefits section), or ask a PERSI Field Representative about your eligibility for a monthly retirement benefit before applying for a separation benefit. We say this because the value of your pension is far more than just your account balance. **You "make back" every dollar you put into your Base Plan account within about your first 3.5 years of retirement, but PERSI will continue to pay you every month for as long as you live, even if you live another 30 years or more.**

Taxes

The following is important information you will need before you decide on how to receive your separation benefit from PERSI. It briefly summarizes the federal (not state or local) tax rules that might apply to your payment. The rules described are complex and contain many conditions and exceptions not included here; therefore **we strongly suggest that you consult with a professional tax advisor before you request a payment of benefits from PERSI.** You can find more specific information in IRS Publication 575, Pension and Annuity Income, and IRS Publication 590, Individual Retirement Arrangements. These publications are available from www.IRS.gov or by calling 1-800-TAX-FORMS.

Federal Excise Tax

If you are not at least age 59 1/2 at the time you take a separation benefit, you may be required to pay a **10%** federal excise tax for "early withdrawal," as well as any applicable federal, state and local taxes on the tax-deferred portion of your benefit. The tax-deferred portion consists of all contributions made after July 1, 1983, and the interest accrued on all your contributions. Contributions to PERSI prior to July 1, 1983 were taxed. (IRS Publication 5329 explains the Federal Excise Tax.)

You may avoid this penalty if you roll over the tax-deferred portion into an IRA or eligible retirement plan. You must roll over the contributions within 60 days of receiving each separation benefit payment or have PERSI do it directly.

Federal Withholding Tax

PERSI is generally required to withhold **20%** of the tax-deferred portion of your separation benefit for federal withholding taxes if the payment is made directly to you. You may avoid this withholding by having PERSI roll over the tax-deferred portion including interest of your benefit directly to another tax-qualified plan or an IRA.

Special Tax Treatments

Different special tax treatments, such as five or ten-year averaging or capital gains treatment may be available if you receive a lump sum payment after you are age 59 1/2 or were born before January 1, 1936. See IRS Form 4972 or consult a tax advisor for more information. (We do not cover these here because very few PERSI members are eligible for such treatments.)

Methods of Payment

A payment from your PERSI Base Plan that is eligible for rollover can be taken in three ways. You can have your payment 1) paid in a direct rollover, 2) paid to you, or 3) split with a portion paid to you and a portion rolled over. A rollover is a payment of your PERSI benefits to your individual retirement account (IRA) or to another eligible retirement plan. Your choice will affect the taxes you owe. No matter which method you choose you will receive a 1099R for income tax purposes. The 1099R will indicate the amount that was taxable.

1. If you choose to have your benefits PAID TO YOU:

   You will receive only 80% of your tax-deferred contributions and interest because PERSI is required to withhold 20% of the payment and send it to the IRS as income tax withholding. It will show as a withholding on a 1099R (sent in January), to be credited against your federal taxes.

   Your payment will be taxed in the current year unless you roll it over. You may be able to use special tax rules that could reduce the tax you owe. If you receive the payment before age 59 1/2, you also may have to pay an additional 10% tax for early withdrawal.

   You can roll over the payment within 60 days of receiving it by paying the funds to your IRA or other employer plan that accepts your rollover. The amount rolled over will not be taxed until you take it out of the IRA or employer plan.

   If you have the payment made to you, and you then decide to roll over 100% of the payment to an IRA or an employer plan, **you must find other money to replace the 20% that was withheld.** If you roll over just the 80% that you received, remember that the 20% that was withheld and not rolled over will be taxable income.

2. If you choose a DIRECT ROLLOVER:

   Your payment will not be taxed in the current year and no income tax will be withheld. Your 1099R will indicate that the money was rolled.

Your payment will be made directly to your IRA or, if you choose, to another employer plan that accepts your PERSI rollover. (PERSI is a 401(a) plan.)

Your payment will be taxed later when you take it out of the IRA or the employer plan.

You must have a minimum of $200 in your PERSI account to choose to have a direct rollover of **all** your tax-deferred contributions.

Any taxed money will be paid directly to you.

3. If you choose to SPLIT PORTIONS:

If you wish to roll over just a portion of your contributions and have the remainder paid to you, you must roll over a minimum of $500.

If you would like more information about payment methods, contact the IRS or your tax consultant. PERSI also has a "Special Tax Notice Regarding Plan Payments," that offers additional information on the federal tax rules that might apply to your Base Plan separation benefit payment.

Leaving Your Base Plan Account in PERSI

If you have left eligible public employment, you may choose to leave your contributions plus interest in the PERSI Base Plan rather than take a separation benefit. Your contributions will continue to earn interest and your retirement credits will be preserved. This option is particularly important if you have 60 months or more of membership service credits (which may qualify you for a lifetime monthly benefit at retirement age), or if you plan to return to eligible public employment within three years and want to keep your existing retirement credits intact. If you are eligible for a lifetime retirement benefit, cost of living adjustments will be added to your accrued benefit from your date of last contribution until you retire.

With Less Than 60 Months of Service

If you have less than 60 months of membership service and separate from employment, you may leave your contributions in the PERSI Base Plan for up to three years. At that time, PERSI will contact you to initiate a refund of your contributions plus interest. You will need to decide if you want to roll over your contributions to another eligible retirement plan or have them paid to you.

Please keep PERSI informed of your current mailing address so that we may contact you regarding a refund of your Base Plan account after the three year limit.

With Less Than 5 Months of Service

If you have less than five months of membership service, you did not meet PERSI eligibility requirements. (Elected and appointed officials should check with PERSI about eligibility). We will notify you.

Taking A Choice Plan 401(k) Withdrawal

Once you are no longer working for a PERSI employer, you may withdraw your funds from the Choice Plan 401(k), or you may defer distribution to some future date or until retirement.

Methods of Payment

A payment from your PERSI Choice Plan may be taken in several different ways, but your options depend on your account balance on the date you request distribution and whether or not you are retiring. If your account balance is more than $5,000 and you are retiring, disabled, a spouse beneficiary, or have attained Choice Plan Normal Retirement Age (age 50), you may choose any of the following options or a combination of options. If your account balance is $5,000 or less, or you are younger than age 50, you may choose only between A, B, C or D, or a combination of those options.

A. **Purchase Base Plan Service.** You may convert all or a portion of your Choice Plan account to purchase up to four years of credited service under the PERSI Base Plan . To take advantage of this option, you must:
   - be leaving active employment and going directly into PERSI retirement, and
   - be eligible to purchase service under the PERSI Base Plan, and
   - have completed the necessary "Purchase of Service" paperwork.

B. **Lump Sum Distribution Paid Directly To You.** Any amounts payable to you that are eligible rollover distributions will be subject to a mandatory 20% federal income tax withholding and applicable state income tax withholding. You may also incur a federal 10% early distribution penalty if you are under the age of 59 1/2. Distributions that are not eligible for rollover generally will be subject to 10% federal withholding, unless you elect a different rate of withholding.

C. **Leave Your Funds in the Choice Plan.** You may leave your funds in the Choice Plan until a later date or until retirement. Your funds will be subject to minimum distribution requirements when you turn age 70 1/2. By leaving your money in the Choice Plan, you defer paying taxes. You will be responsible for the annual record keeping fees to maintain this account (currently $30 annually). The fees will be assessed against your account monthly, beginning with the calendar month starting 90 days after the date you terminate or retire. If you elect to leave all of your funds in the plan, you do not need to complete the Request for Distribution/Rollover form.

D. **Rollover to an IRA or Eligible Retirement Plan.** You may transfer your PERSI Choice Plan account balance via direct rollover into an IRA or eligible retirement plan. By transferring your money via direct rollover, you will defer paying taxes. A beneficiary may only take a rollover distribution if he or she is the surviving spouse of the participant.

E. **Installment Payments.** You may receive monthly installment payments of your PERSI Choice Plan account. Monthly installments can be paid to you:
   1) in a fixed monthly amount, with such payments made until account exhaustion (not to exceed 120 months), or
   2) in substantially equal monthly payments over a period of time not to exceed the joint life expectancy of you and your designated beneficiary.

Installment payments are available only upon retirement, disability, or death if your beneficiary is your surviving spouse. This option is only available if your balance is more than $5,000. You will be responsible for the record keeping fees to maintain this account (currently $30 annually) during the time the installment payments are being made to you. Your installment option may be affected by minimum distribution requirements when you turn age 70 1/2.

Spousal Consent March 2006—Spousal consent no longer required

~~Idaho is a community property state, and under Idaho law, your spouse may be entitled to a portion of your PERSI Choice Plan benefit. To recognize this spousal right, if you are married, PERSI will require your spouse's consent before a withdrawal is paid. Spousal consent protects your spouse's right to his or her portion of the benefit.~~

~~Your spouse's signature must be notarized by a Notary Public to ensure that it is, in fact, your spouse that is offering consent. He or she must show photo identification to the notary. All PERSI offices have notaries available to you at no cost. If you and your spouse wish, you may make an appointment with a PERSI notary.~~

Applying for a Choice Plan Withdrawal

To apply for a Choice Plan withdrawal, you must be an inactive member. If you are considering a withdrawal, call toll-free 1-866-ID-PERSI to receive a Distribution Kit. In this kit you will find:

- **You are about to Receive a Large Sum of Money** – a brochure designed to help you understand the options available to you regarding your PERSI Choice Plan account balance.

- **Special Tax Notice Regarding Retirement Savings Plan Payments** – a summary of federal tax rules that might apply to your distribution.

- **Request for Distribution/Rollover Form RS-804**

PERSI must receive two documents before we can pay a withdrawal: a Notice of Separation RS-109 from your employer, AND a Request for Rollover/Distribution RS-804 from you. If you choose to "roll over" your funds to an IRA or eligible retirement plan, we will also need the name, address and plan account information. Before you make your decision, we strongly recommend that you read the information provided in this Distribution Kit.

Your decision regarding your Choice Plan account can have important financial and tax-related effects on you; therefore, we strongly suggest that you consult with your individual tax advisor.

Repaying A Base Plan Separation Benefit

Returning to Active Membership

You once again become an active PERSI member as soon as you return to eligible public employment. When you return, you begin earning new Base Plan retirement credits which will be added to those already held, if any.

If you received a Base Plan separation benefit and return to eligible employment, you may reinstate your service credits by repaying the full amount of the separation benefit you received, plus interest.

Repaying a Base Plan Separation Benefit

If you return to work for a PERSI employer, you may pay back your separation benefit, plus interest, to reinstate your service credit. You may not begin to pay back a separation benefit while you are an inactive member; however, if you do begin repayment of a benefit while employed and later terminate (quit work), you may continue the repayments after termination. Payments made after termination cannot be tax deferred. You will be charged interest on the outstanding balance of any part of the separation benefit that remains unpaid. The interest you pay will be credited to your account.

If you had more than one separation benefit, all must be repaid to reinstate your service credit. Credited service will not be reinstated until repayment of all separation benefits is complete. Repayment must also be completed before your effective retirement date if you want those months of service used in the calculation of your retirement benefit. If repayment is completed after your retirement date, your monthly benefit will be modified using the additional months of service for the first of the month following the date repayment is completed. Modified benefit amounts are not retroactive to your retirement date.

Repayment of a separation benefit to PERSI can be done several ways: a rollover from another eligible plan or IRA, a one-time lump sum taxed (meaning you have already paid taxes on this money) payment, a monthly or a series of taxed payments direct to PERSI, through tax-deferred payroll deductions, or by an in-service transfer of funds from your 401(k), 457 or 403(b) plan. **If tax-deferred payments will be included as part of your repayment plan, this must be decided before any payment has been made. Once you decide to repay a separation benefit through payroll deduction, the decision is "irrevocable," according to the IRS. This means that once you begin a method of tax-deferred repayment, you cannot change the repayment method or amount of payments.** However, you may make "additional payments."

Plans From Which PERSI Accepts Rollovers

401(a)	401(k)	ESOP	457
403(a)	403(b)	IRA	

For example, if you begin making tax-deferred payroll deductions of $100 a month, you cannot later decide to stop the payroll deductions and pay off the amount in a taxed lump sum. Nor can you reduce, increase or stop the tax-deferred monthly amount once payment has begun until repayment is complete or you separate from employment. An exception to this would be if you had a percentage of your pay deducted to repay the separation benefit. In this case, if your salary increases or decreases, your payment would fluctuate as well, although you would not be able to change the percentage itself. Another exception would be to make "additional payments."

If you want to combine methods of payment, for instance a few taxed payments followed by pre-tax payroll deductions, you may do so as long as you decide up front. **Once pre-tax payroll deductions begin, you may no longer change payments.** However, you may make "additional payments" (see below).

The following are methods of payment allowed for repaying a separation benefit to PERSI. Not allowing mixing and matching of methods, you **may**:

- pay the full amount with a single TAXED payment,
- make periodic TAXED payments until the entire amount is paid,
- rollover the full amount PRE-TAX from another qualified plan or IRA,
- rollover (PRE-TAX) less than the full amount and initiate PRE-TAX payments for the balance,
- rollover (PRE-TAX) less than the full amount and make periodic TAXED payments until the balance is paid,
- make regular (monthly, biweekly, etc.) PRE-TAX payments until the entire amount is paid,
- make TAXED payments (one or more) and then make only PRE-TAX payments for the balance,
- make TAXED payments (one or more) and then rollover (PRE-TAX) the balance,
- make TAXED payments (one or more), then rollover (PRE-TAX) less than the full balance due and initiate PRE-TAX payments for the balance,
- make PRE-TAX payments until you terminate employment, then make TAXED payments,
- make PRE-TAX payments until you terminate employment, then rollover (PRE-TAX) part or all of the balance,
- make TAXED payments until you terminate employment, then rollover (PRE-TAX) part or all of the balance
- make an in-service transfer from your 401(k), 457 or 403(b) plan to pay the full amount,
- make an in-service transfer from your 401(k), 457 or 403(b) plan for less than the full amount, and initiate PRE-TAX or TAXED payments.

Additional Payments

Once you've started repayments, you may not change your payment method. And although you cannot change the amount of an existing voluntary payroll deduction, you can set up **additional** tax-deferred payroll deductions or payments as long as:

- they don't affect previously authorized deductions,
- you and your employer agree that the authorized deduction is irrevocable.

By starting additional tax-deferred payments you can, in essence, increase the amount you are paying on repayments. There is no limit on the number of Additional Payment Agreements you may start; however, each increase must be at least 1% of salary. To begin additional payments, complete an Additional Payment Agreement RS-116B form. This form must be signed by both you and your employer and then submitted to PERSI either with or prior to transmittal of the initial deduction. To assure that there is no deviation from one payroll deduction to another, this agreement states that the same amount or percentage must be deducted each time until the full amount owed plus interest has been paid.

Contact Us

For Choice Plan 401(k) Withdrawal information, contact Mellon HR Solutions.

Toll free phone
1-866-ID-PERSI

Website
www.persi.state.id.us/choice.htm

For Base Plan Separation Benefit and Repayment information, contact your area PERSI office.

Boise
208-334-3365 or 1-800-451-8228

Pocatello
208-236-6225 or 1-800-762-8228

Coeur d' Alene
208-769-1474 or 1-800-962-8228

E-mail
E-mail our "front desk" at fdesk@persi.state.id.us

Website
www.persi.state.id.us

Information in this brochure is based on 2003 law. This publication is meant to explain PERSI law as simply and accurately as possible. If there is any discrepancy between this publication and the law, the provisions of the law will prevail.

Firefighters' Retirement Fund, Idaho Falls City Police and Boise City Police members may have different benefits – contact PERSI for information.